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In the Literature

CREATING CONSENSUS ON COVERAGE CHOICES

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To catalyze movement toward consensus and action, a new *Health Affairs* article by Karen Davis and Cathy Schoen of The Commonwealth Fund outlines a framework for coverage expansions that could bridge differences between private and public program approaches. The framework also illustrates ways incremental steps could build toward universal coverage.

In the article, "Creating Consensus on Coverage Choices," Davis and Schoen outline a framework to achieve basic reform goals:

- Affordable and automatic insurance with a target of coverage for all
- Continuity in coverage
- Fairness in financing
- Build on current group coverage
- Protect high health risk populations.

The approach would combine tax credits for private insurance with public program expansions. It would also promote insurance efficiencies through automatic enrollment, use of information technology, and group coverage. The framework could be phased in gradually over time and modified along the way.

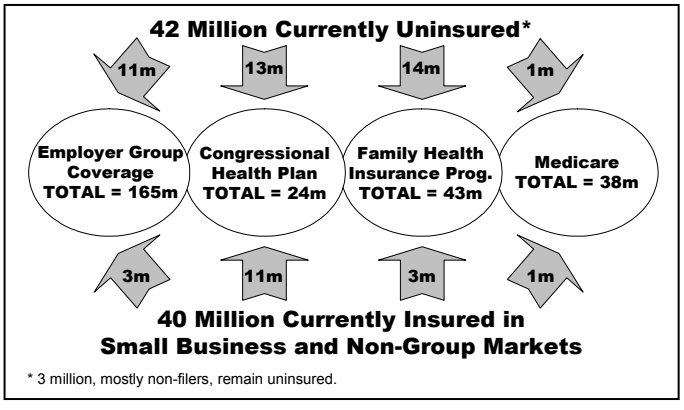
The framework includes four key elements:

- A new group private insurance option known as the Congressional Health Plan
- Automatic enrollment with tax credits or premium assistance to make coverage affordable
- Public program expansions for low-income and high health risk populations
- Employer group expansions.

Congressional Health Plan. The establishment of a new group option, known as the Congressional Health Plan (CHP), is a central element to improved coverage. This new plan would make available the choice of any insurance plan participating in the Federal Employees Health Benefits Program (FEHBP). The new group option would be distinct from FEHBP but retain the same benefit packages. It would be open to the self-employed, employees of small businesses (with fewer than 50 workers), and anyone who has been uninsured for six months or longer. To the extent the new plan attracted higher than average risks, federal reinsurance funds would compensate plans for adverse risk selection and hold costs to the expected group "average" rates.

Automatic Enrollment and Tax Credits. To ensure enrollment and affordability, the framework would institute automatic enrollment through an annual tax system filing, with income-related tax credits to make coverage affordable. An insurance verification system would ask all individuals for evidence of health insurance when they file personal income taxes. Anyone uninsured would be automatically enrolled in coverage. Tax credits would be provided to pay for premiums that exceed 5 percent of income (10 percent in higher tax brackets). The creation of an electronic clearinghouse for health insurance would help promote enrollment in public and private insurance plans.

Public Program Expansions. To provide options for high-risk individuals and promote continuity of coverage, a new Part E would be



added to Medicare for dependents of current Medicare beneficiaries, adults age 60 and older without access to group coverage, and the disabled in the two-year waiting period for Medicare.

The out-of-pocket costs of the CHP plans would likely be unaffordable for those with very low or fluctuating incomes. To provide a more stable and affordable choice for low-income adults and families, eligibility for the state Children's Health Insurance Program would be expanded into a new Family Health Insurance Program, open to all individuals and families with incomes below 150 percent of poverty. Enhanced federal matching rates would offset the new costs to states.

Employer Group Coverage. The framework would retain employer coverage as the mainstay of the group health insurance system. Several features could strengthen the stability of employer coverage. For workers in between jobs, continuing employer insurance for two months would provide more seamless coverage. For those who are uninsured over a long term, premium assistance for COBRA premiums would make staying covered more affordable.

To address the unfairness of a system in which some employers help finance coverage for their workers while others do not, all businesses not offering health insurance would contribute up to $1 an hour worked, or 5 percent of payroll, toward a funding pool for the CHP. Those businesses that do offer coverage would be exempt from this contribution.

Results of the Combined Expansions. The combined insurance expansions could either require everyone to participate (individual mandate) or allow individuals to opt out. Either way, estimates of the net impact indicate that the number of uninsured would drop substantially: a mandate would cover 39 million of the estimated 42 million uninsured, and an opt-out would cover 33 million. These newly insured Americans would be covered under a balance of private and public coverage.

All of the insured would gain the security of new group options open to all—irrespective of health risks. An estimated 20 million would gain improved coverage by access to more comprehensive plans at more affordable premiums.

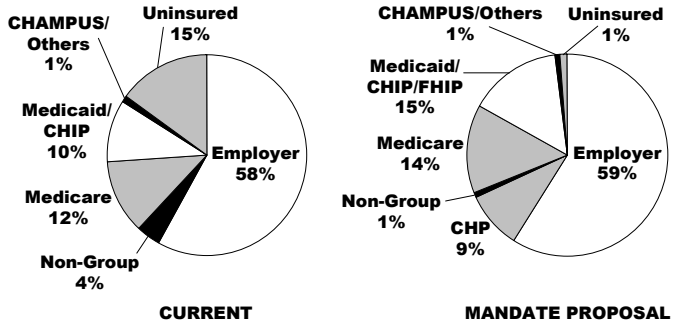
Costs and Savings. The proposed features would yield savings through a number of means, by replacing individual coverage with more efficient group coverage. A more seamless coverage system would also avoid the costs associated with high turnover and gaps in coverage. Better management of chronic diseases and implementation of quality standards for treatment could also reduce spending for high users of health services, who account for the lion's share of all health care spending.

Federal financing support would avoid net additional costs for state or local governments. Employers who now offer insurance would save through a fairer distribution of insurance costs and enhanced group options. If fully implemented, the net federal budgetary cost of tax credits, reinsurance, and public expansions would be an estimated $70 billion. These costs could be partially offset by repeal of the one-percentage-point reduction in income tax scheduled for January 2004.

Facts and Figures

- One-fourth of people under age 65 are uninsured at some point during a given year; and one-third of Americans change insurance plans over any three-year period.
- If everyone were required to participate in the proposed framework, an estimated 39 million of 42 million now uninsured would gain insurance and 20 million would receive improved coverage.
- More than two-thirds of the population would be covered by private insurance.

Distribution of Persons by Primary Source of Coverage Currently and Under Mandate Plan



Source: Lewin Group estimates using the Health Benefits Simulation Model.